

Compliance With Legal and Regulatory Financial Requirements

Introduction

This section of the report provides information on Interior's compliance with the:

- Federal Managers' Financial Integrity Act (FMFIA);
- Federal Financial Management Improvement Act (FFMIA);
- Inspector General Act Amendments (Audit Follow-Up);
- Biennial Review of User Fees; and
- Other Key Legal and Regulatory Requirements

Federal Managers' Financial Integrity Act (FMFIA)

The FMFIA requires agencies to annually provide a statement of assurance regarding the effectiveness of management, administrative and accounting controls and financial management systems. The Secretary's 1999 Annual Assurance Statement is provided in *Figure 1*.

Interior believes that maintaining integrity and accountability in all programs and operations: (1) is critical for good government; (2) demonstrates responsible stewardship over assets and resources in our care; (3) ensures high quality, responsible leadership; (4) ensures the sound delivery of services to customers; and (5) maximizes desired program outcomes. Interior has developed and implemented management, administrative, and financial system controls which reasonably ensure that:

- Programs and operations achieve their intended results efficiently and effectively;

Figure 1

FISCAL YEAR 1999 ANNUAL ASSURANCE STATEMENT

Based upon the results of its annual assessment process, with the exception of the Office of the Special Trustee and certain administrative program areas within the Bureau of Indian Affairs, the Department can provide reasonable assurance that its systems of management, accounting and administrative control, taken as a whole, achieve the objectives of Section 2 of the FMFIA. The Department can also provide reasonable assurance that its accounting and financial systems generally conform to the Comptroller General's principles, standards and related requirements and achieve the objectives of Section 4 of the FMFIA.

Secretary of the Interior

- Resources are used in accordance with Interior's mission;
- Programs and resources are protected from waste, fraud, and mismanagement;
- Laws and regulations are followed; and
- Reliable, complete, and timely data are maintained and used for decision-making at all levels.

Management Control Program Highlights

Interior's management control program ensures full compliance with the goals, objectives and requirements of the FMFIA and Office of Management and Budget (OMB) Circular A-123, Management Accountability and Control. Interior conducted its annual assessment of the effectiveness of its management, administrative, and accounting systems controls in accordance with the FMFIA and OMB guidelines. Interior conducted assessments of management controls in its programs and administrative functions, and relied on the findings and results of Office of Inspector General (OIG) internal program audit reports and GAO program audit reports issued during the year. In addition, Interior relied on the results of the financial statement audits conducted by the OIG under the auspices of the Chief Financial Officers (CFO) Act of 1990, and the Government Management Reform Act of 1994. *Figure 2* summarizes the distribution of 1999 management control assessments.

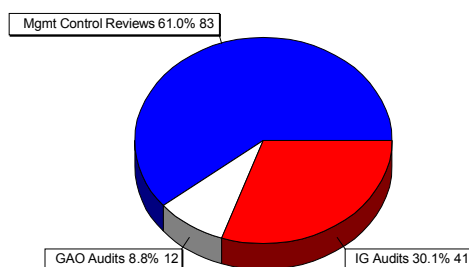
Streamlined Approach to Management Control Assessments

In October 1996, Interior completed a Management Control Reengineering Laboratory that among other things, produced a new, automated, and less resource-intensive approach for targeting and conducting management control assessments. This automated approach is built around eight management integrity measures that are supported by the general and specific management control standards prescribed in OMB Circular A-123. A unique feature of the automated approach is that it provides for identifying areas of both potential material deficiencies and best practices.

The automated approach utilizes a comprehensive questionnaire developed by the Lab Team and refined by a departmental customer focus group. The questionnaire is modified to provide additional program-specific questions for each individual

Figure 2

Distribution of 1999 Management Control Assessments



program assessment. The assessment is conducted electronically over the Internet or e-mail network using an off-the-shelf surveying and analytical software tool.

In 1997, Interior implemented a multi-year pilot test program which concluded in 1999. During that time, 21 different bureau program and administrative functions were successfully assessed using the automated approach. The automated assessments conducted by fiscal year are noted in *Figure 3*:

Figure 3

Automated Assessment Pilot Test by Fiscal Year				
Bureau	1997	1998	1999	Total
MMS	1	2	2	5
BLM	-	1	-	1
NPS	-	1	1	2
BIA	-	4	-	4
OSM	-	2	1	3
FWS	-	1	1	2
BOR	-	1	1	2
USGS	-	1	1	2
Total	1	13	7	21

The results of these assessments met and or exceeded expectations in each instance. Using the automated assessment approach resulted in a 90 percent overall reduction in staff time required by a traditional assessment for planning, conducting, analyzing, and reporting the results of the assessment. The automated assessment approach also resulted in the identification of both potential material weaknesses and best practices; and provided much improved diagnostic and executive-level reporting. The consolidated

summary report for the seven 1999 automated assessments is presented in *Figure 4 (Spider Diagram)*.

Due to the significant resource savings and results achieved in the automated assessment approach pilot test program, the Lab Team received Vice President Gore's prestigious "Hammer Award" in February 1999. Beginning in 2000, the Department is recommending use of the automated assessment approach for all bureau management control assessments.

Results of the 1999 Management Control Program

Since the inception of the FMFIA in 1982, Interior has identified and reported 166 material weaknesses and 64 accounting system non-conformances. By the end of 1999, Interior had corrected 149 of the material weaknesses (90 percent) and all 64 accounting system non-conformances. As noted in *Figures 5 and 6*, Interior has reduced the total number of reported material weaknesses over the last several years from 21 to 17, and the number of accounting system non-conformances from 6 to 0.

While Interior has corrected all previously reported accounting system non-conformances, and provided assurance that its financial systems generally conform to governmentwide standards, Interior is still aggressively pursuing initiatives to ensure that:

- All financial systems are linked electronically;
- The migration to a single, primary accounting system is achieved; and
- Data integrity and consistency are provided for all financial system components.

Figure 4

Automated Assessment - Summary 1999

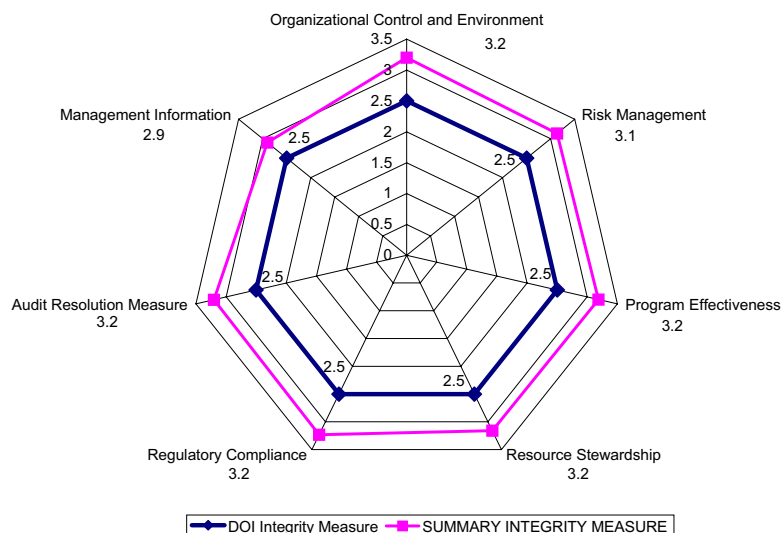


Figure 5

Number of Pending Material Weaknesses

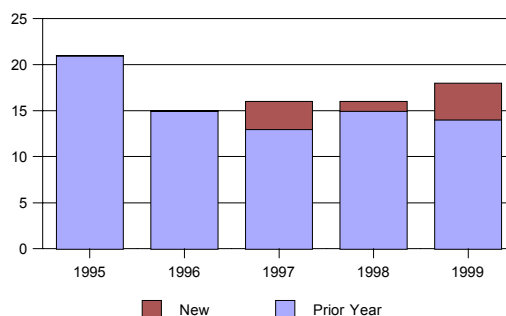


Figure 6

Number of Accounting System Non-Conformances

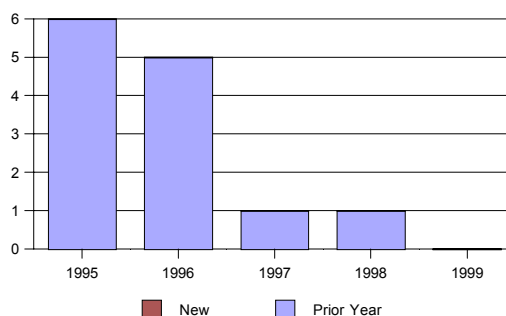


Figure 7

Number of Material Weaknesses			
Period Reported	Reported	Corrected	Pending
Prior Years	158	148	10
1996	0	0	0
1997	3	0	3
1998	1	1	0
1999	4	0	4
Total	166	149	17

Progress in correcting material weaknesses and accounting system non-conformances exemplifies Interior's strong commitment to improving integrity and accountability in all programs, organizations, and functions. This commitment is further demonstrated by the establishment of new accountability goals for the timely correction of material weaknesses and timely implementation and closure of audit recommendations. These new goals are included in the Department's 2001 Annual Performance Plan.

The Department's progress in correcting material weaknesses and accounting system non-conformances since 1996 is presented in *Figures 7 and 8*.

Interior will carry forward 17 pending material weaknesses to 2000. A description of these 17 pending material weaknesses, their respective planned correction actions and targeted completion dates are listed in *Figure 9*. Interior expects to complete corrective actions on five of these material weaknesses (30 percent) during 2000.

Material Weaknesses Corrected

During 1999, Interior completed corrective actions on two pending material weaknesses, one of which was a mission-critical material weakness that was corrected one year ahead of schedule. In addition, the remaining milestones for the former material weakness concerning inaccurate and incomplete data in BIA's procurement data systems were merged into the pending BIA material weakness, "Inadequate Acquisition Management Program."

Figure 8

Number of Material Non-Conformances			
Period Reported	Reported	Corrected	Pending
Prior Years	64	64	0
1996	0	0	0
1997	0	0	0
1998	0	0	0
1999	0	0	0
Total	64	64	0

1. Needs Assessment and Cost of Constructing New Housing (NPS): This material weakness, which was first reported in 1997 as a mission critical weakness, was originally scheduled for completion in 2000. In the past, the National Park Service did not assess housing needs throughout the National Park System in a consistent manner. Concerns were raised about the high cost of new housing constructed and about providing housing in parks where it was not mission critical. To resolve this weakness, the NPS conducted a national housing needs condition and assessment survey at all parks with five or more housing units. In addition, the NPS commissioned a National Academy of Public Administration (NAPA) study to review and recommend appropriate revisions to all NPS policies, organizations, procedures, and practices associated with housing construction. The assessment identified the major contributing factors to the high costs of construction, and the necessary reforms for improving management, reducing these costs, and improving accountability. The NAPA study's eleven recommendations, which will strengthen program management and organizational accountability, and increase public and private sector involvement in the construction program, were deemed appropriate and implemented.

2. Deficiencies in the Administration of Miscellaneous Revenues (BOR): This material weakness which was first reported in 1995. To correct this weakness, BOR established an appropriate organizational unit to oversee the administration of miscellaneous revenues, and developed and published final revenue management rules in the Federal Register to prevent improper accounting and or unauthorized use of miscellaneous revenues.

Figure 9

Bureau	Material Weakness	Corrective Actions	Target Correction Date
Mission Critical Material Weaknesses			
OST	<u>Inadequate Management of Trust Funds</u> : The management of Indian Trust Funds needs to be improved. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information.	The Trust Fund Accounting System and the Trust Asset and Accounting Management System will be extended to all locations. Departmental trust policies and procedures will be developed, internal controls enhanced, and training provided.	FY 2003
BIA and OST	<u>Inadequate Records Management</u> : The records management system has made it difficult to properly administer the records management function.	A joint plan will be developed under the High Level Implementation Plan (being revised) for the Trust Management Improvement Project. Initiatives will include cleaning up disposition backlog, developing policies, records manuals and training aids, providing technical assistance, implementing electronic records and imaging technology, developing record control schedules, conducting program evaluations, and publishing an Indian Trust Desk Guide with history, processes, and record-keeping requirements.	FY 2002
BLM	<u>Inadequate Range Monitoring</u> : Inadequate range monitoring and unreliable monitoring data has delayed grazing decisions involving Federal lands.	Rangeland health standards assessments and allotment evaluations will be conducted to determine the need for management adjustments in livestock grazing use.	FY 2001
BOR	<u>Irrigation of Ineligible Land</u> : Adequate attention was not given to identifying and resolving instances of Federal water being delivered to ineligible lands on 24 projects in eight States. As a result, the Federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.	Develop an alternative plan to resolve the issue of ineligible lands that receive Federal irrigation water.	FY 2001
DEPT	<u>Lack of Accountability and Control Over Artwork and Artifacts</u> : The accountability and control over artwork and artifacts needs to improved.	Complete backlog of inventorying museum property.	FY 2000
DEPT	<u>Inadequate Departmentwide Maintenance Management Capability</u> : Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities.	Implement a comprehensive maintenance management system with an appropriate linkage to the accounting system.	TBD
Other Material Weaknesses			
BIA	<u>Irrigation Operations and Management</u> : The establishment of irrigation assessment rates, collection, recording, investment and utilization of irrigation receipts are inadequate. Operation and maintenance (O&M) receivable balances have not been kept current, and billing and debt collection processes have not been consistently followed.	Publish 25 CFR 171 A and B as a Final Rule. Reconcile past O&M receivables and bring all accounts to current status. Develop Operations Handbook regarding project operation and keeping O&M assessments and collection processes current.	FY 2000
BIA	<u>Deficiencies in Real Property Management</u> : There are deficiencies in real property management and accounting. Differences between balances reported in the general ledger and balances in the subsidiary ledger for real property are unreconciled. The Bureau has not completed real property inventories or adjusted the subsidiary ledger. There are no written policies and procedures to ensure accuracy of real property accounts.	Inventories have been taken and accounting adjusting entries made. The Bureau will verify data, maintain records, and enhance documentation. Develop new procedures on construction-in-progress data. Finalize computer screens and software implementation, revise procedural handbooks, and develop additional procedures needed.	TBD
BIA	<u>Inadequate Acquisition Management Program</u> : The Bureau's Acquisition Management organization, policies, procedures, and guidelines are inadequate.	Guidance has been developed. The Bureau will establish performance appraisal standards for contracting personnel, establish Bureau Acquisition Review Board, perform administrative management reviews and follow-up Quality in Contracting Review, and publish regulations on Buy Indian Act.	TBD

Figure 9 continued

Bureau	Material Weakness	Corrective Actions	Target Correction Date
BIA	<u>Inadequate Facilities Program</u> : The lack of proper maintenance and repair of facilities has created health and safety hazards in BIA schools, employee housing, and other facilities.	Complete backlog validation and condition assessment project. Set guidelines and standards for operation and maintenance of employee housing program. Complete inventory and assessment of conditions of Bureau owned employee quarters. Complete testing and implement facilities management computer system.	FY 2000
BIA	<u>Inadequate General Controls Over Automated Information Systems</u> *: An effective security program has not been implemented; there is a lack of adequate controls over access, software development/changes, segregation of duties, and system software; and there is no service continuity plan.	Develop an approved BIA information technology security plan and a strategic plan for the Information Resources Management Division. Develop and issue formal policies, standards, and procedures for computer operations.	TBD
BLM	<u>Management and Oversight of the Land Exchange Program</u> : Policy guidance and procedures, and personnel training, do not ensure that appropriate appraisals are being developed and used in land exchange determinations.	BLM's Land Exchange Handbook is being revised to incorporate the new policies and procedures identified in the Appraisal Manual for land exchanges and the land exchange training modules.	FY 2001
BLM	<u>Administration and Oversight of the Wild Horse and Burro Program</u> *: Implementation of the strategic plan for the management of wild horses and burros has not achieved the appropriate herd management levels on public lands.	The strategic plan for the management of wild horses and burros is being revised. Implement long-term recommendations from the Adoption Market Strategy to increase the number of animals adopted.	FY 2000
BLM	<u>Insufficient Safety Management Program</u> : Supervisory oversight of the Safety Management Program needs to be improved.	Schedule and provide all required safety training for state safety managers and collateral duty safety officers. Allocate appropriate funding in the budget to effectively manage the Safety Management Program.	FY 2001
BIA	<u>Inadequate Debt Collection</u> : Bureau regulations, procedures, and guidelines are inadequate and obsolete to properly administer current debt collection functions.	Set time frame to run periodic delinquent debt referral to Treasury with automated interface program. Convert irrigation projects to National Irrigation Information Management System with FFS interface. Routinely reconcile Irrigation and Power subsidiary ledgers and general ledger. Complete construction debt reconciliation.	FY 2002
MMS	<u>Inadequate Internal Controls Over Accounting Operations</u> *: Ineffective controls have prevented the timely reconciliation of general ledger accounts and production of timely, accurate and reliable financial data required for annual audited financial statement preparation (exclusive of the Royalty Management Program).	MMS will reassign and segregate duties and responsibilities within the Financial Management Branch, implement a plan to ensure specific individual and official are held accountable for non-compliance with established internal controls, establish a special project team in conjunction with the Department and the OIG to complete year-end account reconciliations, develop and enter correcting adjusting journal entries and produce reliable and accurate financial statements in accordance with governmentwide standards.	FY 2000
FWS	<u>Inadequate Management Controls and Audit Follow-up in the Federal Aid Program</u> *: The absence of effective management controls, a centralized audit follow-up program, and guidance governing the administration of the Federal Aid Program has resulted in the ineffective management oversight and accountability for grant funds on a Servicewide basis.	Federal Aid process improvement teams will review reported program deficiencies in the Federal Aid Information Management System, Financial Reconciliation, Safety Margin, Grant Operations, Audit Review and Resolution, and Organization Function and Staffing Review. FWS management will evaluate the findings and recommendations of the process improvement teams and develop and implement comprehensive guidelines and organizational changes to govern the regional administration of the Federal Aid Program	TBD
TBD – To be determined * New			

New Material Weaknesses

Interior's Management Control Audit Follow-up (MCAF) Council reviewed and analyzed the results of the 1999 management control assessment process and concluded that four new material weaknesses should be reported. The new material weaknesses are:

1. Inadequate Supervisory Oversight of the Safety Management Program (BLM):

Management has not assigned appropriate resources to required safety training for state safety managers and collateral duty safety officers, and needs to intensify its monitoring of the Safety Management Program.

2. Inadequate Internal Controls Over Financial Operations and Data Managed by the Financial Management Branch (MMS):

Ineffective controls have prevented the timely reconciliation of general ledger accounts and production of timely, accurate and reliable financial data required for annual audited financial statement preparation (exclusive of the Royalty Management Program).

3. Inadequate Management Controls and Audit Follow-up in the Federal Aid Program (FWS):

The absence of effective management controls, a centralized audit follow-up program, and guidance governing the administration of the Federal Aid Program has resulted in the ineffective management oversight and accountability for grant funds on a Servicewide basis.

4. Inadequate General Controls Over Automated Systems (BIA):

An effective security program has not been implemented and as a result, there is a lack of adequate internal controls over system access, software development/changes, segregation of duties, and system software. In addition there is no service continuity plan.

A description of these weaknesses, the planned corrective actions and targeted completion date are summarized in *Figure 9*.

Mission Critical Weakness

Definition: Material weaknesses that prevent Interior from fulfilling a programmatic mission or strategic goal, and that warrant senior management focus and attention and resource priorities throughout the corrective action process. A mission critical weaknesses could adversely impact the safety of employees and other citizens, prevent the collection and distribution of royalties and other funds owed to the Federal government and Native Americans, prevent the efficient use of programmatic resources, damage the environment, place financial resources at risk, prevent the timely repair and maintenance of government property, and preclude the identification, collection, and preservation of irreplaceable historical artwork and artifacts.

Mission Critical Material Weaknesses

OMB Circular A-123 reporting guidance requests that each agency identify and report on the most critical material weaknesses affecting the agency. In response to this reporting requirement, Interior's MCAF has identified 6 of its 7 pending material weaknesses as "mission critical weaknesses".

Interior recognizes the importance of correcting these mission critical weaknesses in a timely manner. Corrective action plans with key milestones, target dates, and accountable officials have been established and approved by Interior. The MCAF Council and senior program management officials continuously monitor corrective action progress for each mission critical weakness. The six mission critical material weaknesses and corrective action progress to date are:

1. Inadequate Management of Trust

Funds: Management of Individual Indian Monies (IIM), Tribal Trust Funds, and other Special Trust Funds is insufficient to properly maintain and administer the approximately \$3 billion fund. The trust funds lack effective internal controls, dependable accounting systems, and reliable accounting information. The Office of Trust Funds Management has been reorganized to allow for more effective management

improvements through establishment of a Quality Assurance Division and consolidation of accounting functions under the Accounting Division. There is an ongoing effort to standardize and verify Individual Indian Monies system data from trust resource records.

There are currently a number of major initiatives underway to systematically address the decades-old Indian Trust Funds problems.

- *Legislative Proposal to Address Fractionated Ownership:* One of the root causes plaguing trust fund management is the fractionation of Indian lands. The Administration submitted its legislative proposal to address fractionation to the Congress in June 1997. The proposal intends to consolidate existing fractional interests through an acquisition program which conveys the interests to tribes with “liens” on future income generated on the property to recoup purchase price, and prevent future fractionation through enactment of inheritance limitations.

While the Administration’s proposal was not enacted, Congress did provide \$5 million in 1999 to fund the cost of an Indian land consolidation pilot designed to purchase small, highly fractionated individual interests in trust lands in Wisconsin and return those interests to the tribes.

The Department continues to work with allottee groups and congressional staff in an effort to develop a consensus bill.

- *Comprehensive Plan for Strengthening the Trust Funds Infrastructure:* The Department has developed a High Level Implementation Plan that provides a “general roadmap” to the 11 related projects which collectively comprise the Department’s Trust Management Improvement Project.

In 1999, the Department made substantive progress along several fronts in

carrying out important initiatives identified in the High Level Implementation Plan.

(1) Following a successful pilot in the Western, Pacific, and Alaska Regions, the Office of the Special Trustee for American Indians (OST) is implementing a new commercial off-the-shelf Trust Funds Accounting System to administer all 300,000 Tribal and Individual Indian Monies (IIM) accounts and investments. As of October 1999, nine of the twelve Regional Offices and the tribal accounts have been converted to the new system. The remaining accounts will be converted in spring of 2000.

(2) The Bureau of Indian Affairs has contracted for a new Trust Asset and Accounting Management System (TAAMS) to replace BIA’s aging and antiquated automated systems for land title operations and land and lease management functions. A pilot test of the system was initiated in the Rocky Mountain Region in June 1999. TAAMS will be ready to be considered for Secretarial certification for deployment at the remaining Land Title and Records Offices shortly.

(3) BIA awarded a data cleanup contract for the Rocky Mountain and Alaska Regions in February 1999. The pre-implementation data cleanup effort in the Rocky Mountain Region has been completed, and the post-implementation phase is now underway to ensure that existing data is accurate and complete. Site assessments were completed in all Regional Offices as of October 1999.

2. Inadequate Records Management: The Bureau of Indian Affairs records system is inadequate to properly administer the records management function. As part of a comprehensive corrective action plan, the Office of the Special Trustee for American Indians initiated a process for ensuring the proper handling of all Agency records, with an emphasis on trust records.

BIA and OST have established a combined records management program office, the Office of Trust Fund Litigation and Support, with line responsibility over records management policy, guidance, training, and evaluation nationwide. The office is responsible for developing and implementing a uniform records management program with authoritative policies, guidance, and training requirements for BIA and OST.

In addition, OST, BIA, Minerals Management Service (MMS), the Bureau of Land Management (BLM), and the Office of Hearings and Appeals (OHA) will actively interact and work together to develop an agreed upon approach to managing Indian trust records.

3. Inadequate Range Monitoring: The Bureau of Land Management has recognized that not all high priority allotments were being monitored; many grazing decisions were being delayed; and, as a result, the condition of some rangelands continued to deteriorate. To address this weakness, BLM has issued interim Standards and Guidelines for Rangeland Health and Grazing Management, conducted the Guidelines Implementation Workshop, and developed the final Standards and Guidelines Implementation Policy. BLM completed the Healthy Rangelands National Validation Review in September 1999, and will carefully assess the results to determine what additional actions (if any) are necessary to correct this material weakness.

4. Irrigation of Ineligible Land: The Bureau of Reclamation has not given sufficient priority to identifying and resolving instances of Federal water being delivered

to ineligible lands on at least 24 projects in eight States. Consequently, the Federal government has provided unintended benefits to water users who did not pay the full cost of supplying the water used to irrigate ineligible lands.

The Bureau of Reclamation has completed an internal assessment of unauthorized use of Federal project water to define the data requirements necessary to ascertain the extent to which ineligible lands receive Federal project water. Seven of the 24 projects have resolved the unauthorized water use issue. Ten projects have made significant progress and have plans in place to correct the unauthorized water use issue through a combination of land classification, water conservation, environmental assessments, prioritization of projects within regions, and compliance enforcement on contract violation issues. A methodology for repayment of financing costs for supplying water to ineligible beneficiaries is under development, including expansion of programs and policies promoting efficient district water use and pricing.

5. Inadequate Departmentwide Maintenance Management Capability: Interior lacks consistent, reliable, and complete information to plan for, budget, and account for resources dedicated to maintenance activities. As a result, Interior does not have ready access to the needed information to report on deferred maintenance in its financial statements as required by the Statement of Federal Financial Accounting Standard (SFFAS) No. 6, "Accounting for Property, Plant, and Equipment." The Department has established a Facilities Management Systems Partnership which provides a forum for the Department and its facilities managing bureaus to coordinate the development and use of facilities management systems.

In order to address substantive issues in a systematic manner, the Department conducted a departmentwide review of maintenance and repair issues with the goal of reducing financial, health and safety liability

to Interior, increasing the effectiveness and awareness of facilities maintenance, managing deferred maintenance, and ultimately improving the stewardship of Interior's constructed assets.

Based on this review, the Department has established the following three facilities maintenance objectives: (1) to properly manage and account for maintenance and construction funds from appropriations and fee receipts; (2) to identify the highest priority facilities maintenance and construction needs of the Department through the use of standard definitions and data; and (3) to formulate and implement a Five-Year Maintenance and Capital Improvement Plan (Five-Year Plan) for infrastructure, beginning with the 2000 Budget.

Concurrent with the development of the Five-Year Plan, improvements to the Department's budget structure and accounting systems are being made to enable the Department to measure the effectiveness of its facilities management programs more accurately.

6. Lack of Accountability and Control Over Artwork and Artifacts: Accountability, control, and protection of artwork and artifacts administered by the bureaus and offices throughout Interior are inadequate to ensure the preservation of these objects. Until improved policies, procedures, and controls are implemented, the risk of significant loss or damage of irreplaceable artwork and artifacts will remain high.

Interior has developed and implemented a revised museum property strategy and related policies and procedures. In addition, plans to implement appropriate infrastructure in each bureau have been developed and approved. Progress in implementing Bureau plans has not proceeded at the pace originally anticipated due to resource restrictions. As a result, Interior's strategy has been revised, and each Bureau is expected to implement its plan within broad targets defined by Interior. The March 2001 planned correction date assumes all bureaus will have program

infrastructures in place with a solid record of achievement in reducing their backlog in accessioning and cataloging their museum property. Progress to date on a departmentwide basis is exceeding the specified improvement goal (baseline plus five percent).

Other Management Challenges Confronting Interior

Recently, the Office of Inspector General and the GAO have advised Congress about what they consider to be the major management challenges and other issues facing the Department. Most of these issues have met the FMFIA criteria for and been reported as material weaknesses in the Department's Annual Accountability Report. The other issues, while not meeting the FMFIA material weakness criteria, are receiving priority management attention.

Financial Management in the Bureau of Indian Affairs: The Department has reported several material weaknesses related to BIA financial management in recent Annual Accountability Reports, including weaknesses relate to debt collection, accounts receivable, property and acquisition management. These and other reported material weaknesses formed the basis for the qualification about the effectiveness of Departmental management controls in the Secretary's 1998 Annual Assurance Statement to the President and the Congress, as required by the Federal Managers' Financial Integrity Act, and also contributed to the qualification of the auditor's opinion on BIA's 1998 audited financial statements.

The BIA has a number of internal and external improvement initiatives underway to address these weaknesses and related issues. The National Irrigation Information Management System (NIIMS) has been implemented at all but two sites. A Power and Irrigation Reconciliation Team has completed work at five irrigation projects, and new regulations for administering and recovering the full cost of operations on projects have been developed and submitted

for Solicitor approval. Debt collection deficiencies identified in the 1998 financial statement audit process are being addressed through implementation of centralized billing and collection functions for irrigation and power projects, and by accelerating the amount of eligible delinquent debt referred to the U.S. Treasury for collection. The National Academy of Public Administration (NAPA) has provided a comprehensive, independent assessment of its administrative operations, processes and staffing. A number of NAPA recommendations are currently being implemented by the Department.

Financial Management and Audit Resolution in the Insular Area Governments:

The Department and the Office of Inspector General have been working collaboratively to address the resolution of long-standing financial management and other audit issues involving the insular area governments. These efforts have focused on compliance with responsibilities under the Single Audit Act, and more timely resolution of audit recommendations. Recommendations involving local insular policies and practices and non-Federal funds account for most of the existing backlog of open audits. Resolution of these audit recommendations is hindered by the Secretary's limited enforcement authority. The Department proposed and received Office of Management and Budget approval for an administrative solution to address enforcement and resolution efforts involving insular area audits. The new guidelines are effective for 2000.

Waste Management: In recent years, the Department has developed a comprehensive plan to identify public lands contaminated by hazardous materials, abandoned mines, oil and gas wells, leaking underground storage tanks and pipelines and illegal dumping, and assess environmental cleanup costs. Based on this assessment, the Department recognized an estimated liability of \$___ million in its 1999 consolidated financial statements for environmental cleanup of these lands. That estimate is reassessed annually as part of the audited

financial statement process. Funding to implement clean-up of these sites is regularly requested through the Department's budget process.

Revenue Collections: The Department is actively involved in a significant number of program activities that generate annual revenues in excess of \$6 billion annually. These include a diverse range of user charge programs, such as oil and gas bonus bids and royalties, reclamation fees, water use repayments, and recreational use fees. In addition, the Department manages a cost recovery program which generated in excess of \$500 million during 1998. Revenue and cost recovery programs are reviewed on a regular basis (as part of the CFO Act requirement to conduct biennial reviews of user charge programs) to ensure that opportunities for enhanced revenue collection are assessed. The Department continues to improve and has a good record of taking timely and responsive actions on Inspector General audit recommendations involving revenue and fee collections.

Audited Financial Statement Performance

As required by GMRA, Interior prepares consolidated financial statements for the Department. These financial statements are audited by the Office of Inspector General. Additionally, almost every individual bureau prepares financial statements which are also audited by the Office of Inspector General. The preparation and audit of financial statements is an integral part of the Department's centralized process to ensure the integrity of financial information maintained by the Interior.

Objective: *Achieve and maintain unqualified (clean) audit opinions on all financial statements prepared by Interior.*

Performance Measure: *Number of audits with unqualified audit opinions.*

The results of the 1998 and 1999 audited financial statement process are summarized

in Figure 10. As noted in the table, there were instances where exceptions noted on internal controls and material weaknesses/reportable conditions were noted with respect to internal controls and compliance with laws and regulations.

At the time of report publication, the Department and ___ bureaus had received unqualified audit opinions on their respective 1999 financial statements.

Figure 10

Summary of FY 1998 and FY 1999 Financial Statement Audits								
Department	Unqualified Opinion on Financial Statements		Unqualified Opinion on Internal Control		Unqualified Opinion on Compliance with Laws and Regulations		Compliance with FFMIA	
	1998	1999	1998	1999	1998	1999	1998	1999
FWS	Yes	No	No	No	Yes	Yes	Yes	Yes
USGS	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
BIA	No	No	No	No	No	No	Yes	Yes
BLM	Yes	No	No	Yes	Yes	Yes	Yes	Yes
MMS	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
NPS	Yes	No	No	Yes	Yes	Yes	Yes	Yes
BOR	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes
OSM	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
OS	Yes	No	Yes	Yes	Yes	Yes	Yes	Yes

No – Indicates a qualified audit opinion.

(1) Audited financial statements at bureau level not issued.

* At time of publication, audit opinions had not been issued for these bureaus.

Resolution of Internal Control Weaknesses Reported in 1998 Audited Financial Statements

The following section summarizes actions taken to resolve material internal control weaknesses reported in the 1998 audited consolidated financial statements.

National Park Service (NPS): The auditors identified the need to improve controls over Construction-in-Progress. NPS did not have sufficient internal control procedures to ensure that the general ledger control account for construction-in-progress was accurately stated and properly supported. Appropriate adjustments were made to the 1998 financial statements and NPS established a project team to improve the process which was implemented during 1999.

Bureau of Indian Affairs (BIA): The auditors identified material weaknesses related to controls over property management accounts, general controls over automated information systems and controls

Internal Control Material Weakness

Definition: Material weaknesses are reportable conditions in which internal control processes do not reduce to a low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected in a timely manner.

over financial information integrity reviews. During 1999, BIA initiated actions to improve controls over property management accounts which included developing policies and making procedural changes in the areas of (1) buildings, (2) land improvements, other structures and facilities and (3) construction-in-progress. BIA also implemented procedural changes to properly adjust the financial statements for erroneous data received from field locations. These improvements resulted in improved property records which permitted the Office of Inspector General to issue an opinion on the related information presented in the bureau's financial statements. Steps were also taken to improve controls over automated information systems which included the reorganization of the information resource management functions of the bureau. Further, BIA completed 3 of 4 planned management control reviews during 1999, and is currently implementing a program for 2000 to continue its expansion of financial information integrity reviews.

Resolution of Reportable Conditions Related to Internal Controls Reported in 1998 Audited Financial Statements

The following section summarizes actions taken to resolve reportable conditions related to internal controls identified in the 1998 audited consolidated financial statements.

Deferred Maintenance Management and Reporting: The auditors found that policies and procedures for conducting periodic

Reportable Condition Related to Internal Controls

Definition: Reportable conditions are those matters coming to the auditor's attention, that in the auditor's judgment, should be communicated to management because they represent significant deficiencies which could adversely affect the entity's ability to meet specified internal control objectives.

condition assessment surveys and computing deferred maintenance funding estimates needed to be established by the Department and the bureaus to promote consistency and accuracy. Additionally, supervisory and monitoring controls over deferred maintenance reporting required strengthening to ensure that the deferred estimates are supported by adequate documentation to comply with OMB Bulletin 98-08, "Audit Requirements for Federal Financial Statements, as amended". Technical Amendments to OMB Bulletin 97-01, "Form and Content of Agency Financial Statements" changed the deferred maintenance reporting pursuant to SFFAS No. 14, "Amendments to Deferred Maintenance Reporting". The Department is in compliance with the revised reporting requirements for 1999. In addition, the Department has improved its guidance for deferred maintenance data collection as part of the 2001 budget process and has identified maintenance management as a material weakness to improve overall management of maintenance within the Department.

Improved Controls Over the Data Process Environment at the Reston Enterprise Data Services Center:

In November 1998 certain weaknesses and problems were identified in the general controls of the Reston Data Processing Center. During 1999, these issues have been addressed through correction of the 46 identified recommendations.

Controls Over Summarizing Transactions as Government and Non-Government and Trading Partner Data:

The auditors identified that internal controls were not sufficient to provide reasonable assurance that transactions were properly summarized as Federal or Public or that transactions with other Federal agencies (Trading Partner data) were properly summarized as required by the Treasury Financial Manual. Steps were taken by the Department to address these deficiencies to improve the reporting of this information for 1999.

Resolution of Compliance with Laws and Regulations Reported in the 1998 Audited Financial Statements

As a result of tests of compliance with certain provision of laws and regulation, noncompliance with which could have a direct and material effect on amounts contained in the principal financial statements and certain other laws are regulations specific in Bulletin 98-08, including the requirements referred to in the Federal Financial Management Improvement Act of 1996, the auditors found that the Bureau of Indian Affairs (1) had not effectively established and implemented general and financial management practices and improved its systems of accounting, financial management, and internal controls to ensure the issuance of reliable financial information and to provide for the production of complete, reliable, timely and consistent financial information, (2) was not in compliance with the Debt collection Improvement Act, (3) was not in full compliance with the Credit Reform Act, (4) was not in full compliance with the Prompt Payment Act, and (5) was not in full compliance with the Federal Financial Management Improvement Act related to general controls of automated information systems. In 1999, all auditor findings except the issue related to the general controls of automated information systems were corrected by BIA.

Federal Financial Management Improvement Act (FFMIA)

The Federal Financial Management Improvement Act of 1996 (FFMIA) builds upon and complements the CFO Act, the Government Performance and Results Act, and the Government Management Reform Act. The FFMIA requires that Federal agencies conform to the governmentwide Standard General Ledger, comply with all applicable Federal accounting standards, and establish financial management systems that support full disclosure of Federal financial data, including the full costs of Federal programs and activities. The auditor is to include a statement regarding compliance with these provisions in the audit report on agency financial statements. If an agency is not in compliance with these requirements, the FFMIA requires that the agency head establish a remediation plan necessary to bring the agency’s financial management systems into substantial compliance.

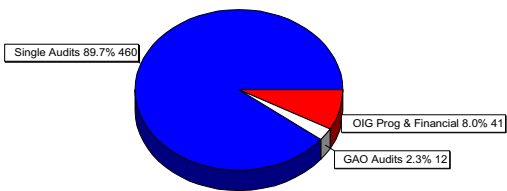
For 1998, the Office of the Inspector General (OIG) reported in its opinion on the Department’s consolidated financial statements that one bureau, the Bureau of Indian Affairs, was not in compliance with the FFMIA. The OIG found BIA’s automated information system was not in compliance with the FFMIA due to departures from certain requirements of Office of Management and Budget Circulars A-127, “Financial Management Systems,” and A-130, “Management of Federal Information Resources.” Corrective actions are underway by BIA to comply with these requirements.

Inspector General Act Amendments (Audit Follow-Up)

Interior firmly believes that the timely implementation of Inspector General and General Accounting Office audit recommendations is essential to improving efficiency and effectiveness in its programs and operations, and achieving integrity and accountability goals. As a result, Interior has instituted a comprehensive audit follow-up

Figure 11

Audit Follow-Up Workflow



program to ensure that audit recommendations are implemented in a timely and cost-effective manner, and that disallowed costs and other funds due from contractors and grantees are collected or offset.

In 1999, Interior’s Audit Follow-up Program monitored a substantial amount of Single Audit, OIG, and GAO audit activity, including 517 Single Audits, 161 Office of Inspector General program and contract audits, and 12 U.S. General Accounting Office audits (see Figure 11). Audit follow-up actions included tracking the implementation of audit recommendations, monitoring the recovery of disallowed costs, and resolving disputed findings and recommendations.

Interior also continued to make significant progress in implementing audit recommendations, closing audits, and recovering disallowed costs and other funds owed the government. Interior achieved a 38 percent overall closure rate on OIG audit reports and a 51 percent recovery rate on disallowed costs, which represented improvements over the prior fiscal year.

Single Audits

Interior provides over \$2 billion each year in funding for grants, cooperative agreements, Indian Self-Determination contracts, and Self-Governance Compacts to State and local governments, Indian tribes, colleges and universities and other nonprofit organizations. Under the provisions of the Single Audit Act, the grantees’ financial operations, management control structure, and level of compliance with applicable laws and regulations must be audited each year. All

Single Audit reports are now forwarded to and screened by the Federal Single Audit Clearinghouse (Clearinghouse). Those Single Audit reports with findings and recommendations requiring OIG review and audit follow-up actions are then forwarded to the OIG for review and distribution to the appropriate bureaus. Each bureau is responsible for meeting with grantees and negotiating resolution of the deficiencies identified in the audit reports, and for determining the allowableness of any expenditure of Federal funds which has been questioned by the auditors.

Figure 12

FY 1999 Single Audit Workload Data	
Reports Issued To:	No. of Single Audits
Department/Office of the Secretary	4
Fish and Wildlife and Parks	59
Indian Affairs	337
Office of Insular Affairs	57
Land and Minerals Management	29
Water and Science	31
Total	517*
* Of the 517 single audits processed during 1999, 53 (10 percent) were referred to the Assistant Secretary for Policy, Management and Budget for tracking of final action. The audits referred were assigned as follows: Office of Insular Affairs (45), Bureau of Indian Affairs (6), and Fish and Wildlife Service (2).	

Reaching Timely Management Decisions on Single Audits

Management decisions (agreement on actions to implement audit recommendations between the bureau and grantee) are expected to be agreed to within six months from receipt of the audit report. If an audit results in disallowed costs, bureaus are responsible for collecting the disallowed costs from the grantees.

Objective: Achieve management decision on all single audits within six months.

Performance Measure: Audits with management decisions within six months.

During 1999, 6 of the 8 (75 percent) Single Audits received from the Clearinghouse requiring resolution (exclusive of Insular Affairs audits) achieved management

decisions within six months from the issuance date of the audit report. The Office of Insular Affairs (OIA) achieved management decisions on 13 of 45 (29 percent) audits referred. OIA's efforts to achieve management decisions, however, were hindered by the Secretary's limited executive authority to direct resolution of these audits. By the end of 1999, the Department and OMB reached an agreement on an administrative solution to this problem, and management decision and closure rates on future insular government audit reports should achieve more acceptable levels.

Collecting and Offsetting Disallowed Costs

As noted in Figure 13, Interior made good progress during 1999 in closing audits and recovering disallowed costs.

Figure 13

FY 1999 Summary of Actions Taken on Single Audits with Disallowed Costs			
		Number Of Reports	Disallowed Costs
(A) Reports on Hand at Beginning of Period		17	\$737,970
(B) New Reports		8	4,024,839
Total reports in tracking		25	4,762,809
(C) Final action taken during period		13	4,573,111
Collected	4	\$1,797,798	
Written Off	0	0	
Offset	0	500,842	
Reinstated	1	1,745,439	
Referred to Treasury For Collection Action	6	\$529,032	
(D) Reports in Progress at end of period		12	\$189,698
Mgmt dec < 1 yr old	1	\$18,109	
Mgmt dec > 1 yr old	11	171,589	
Mgmt dec under formal appeal	0	0	

Internal Audits

Internal audits are audits conducted by the Office of Inspector General of the programs, organizations, financial and administrative operations of Interior. During the period, 161 audits were in tracking, of which 79 were closed (49 percent). More importantly, for the audits in tracking during the period, there were 312 recommendations, of which 134 were closed (43 percent).

One category of these internal audits are those audits where the OIG presents recommendations to improve efficiency and where funds can be put to better use (FBU audits). Interior tracks the successful implementa-

tion of all FBU audit recommendations and FBU dollar estimates agreed to by management. Interior progressed in implementing recommendations and closing FBU audits during 1999, as 34 of 96 (35 percent) audits were closed (*Figure 14*). The closed audits involved \$3.27 million of FBU funds.

Figure 14

Summary of Actions Taken on Audits with Funds To Be Put to Better Use (FBUs)		Number Of Reports
(A) Reports on hand at beginning of report period		55
(B) New reports received during the report period		41
Total reports in tracking		96
(C) Reports closed during the report period		34
(D) Reports in progress at the end of the report period		62
		No. of reports
Mgmt dec < 1 year old		55
Mgmt dec > 1 year old		4
Mgmt dec under formal appeal		3

General Accounting Office Audits

The GAO audits are a major component of Interior's audit follow-up program workload (*Figure 15*). During 1999, a total of 95 GAO reviews were in process, of which 21 were terminated without issuance of a letter report or other work product. In addition, there were 32 draft reports in process and 12 final audit reports issued with 18 recommendations. Interior successfully implemented 72 percent (13 of 18) recommendations by the end of 1999. The remaining recommendations involve actions that could be cost prohibitive or require long-term implemen-

Figure 15

Departmental Summary of Actions Taken on Reports Issued by the GAO		Number Of Reports
Active Reviews		
Reviews active at beginning of reporting period		63
New reviews initiated during the reporting period		32
Reviews terminated without product during the reporting period or issued as Fact Sheets or other reports requiring DOI action		21
Total reviews in progress at the end of the reporting period		74
Draft/Final Reports		
Draft/Final Reports in tracking at the beginning of the reporting period		23
Draft Reports issued during the reporting period		9
Final Reports closed during the reporting period		1
Total Draft/Final Reports in tracking at the end of the reporting period		14
Draft Reports in tracking at the end of the reporting period		2
Final Reports in tracking at the end of the reporting period		12
Code	No. of Final Reports	
D1 Mgmt dec < 1 year old	4	
D2 Mgmt dec > 1 year old	8	
D3 Mgmt dec under formal appeal	0	

tation plans. These recommendations are being evaluated by Interior at this time.

Biennial Review of User Fees

The Chief Financial Officers Act of 1990 requires biennial reviews of agency fees, rents, and other charges imposed for services and things of value provided to specific beneficiaries as opposed to the American public in general. The objective of the reviews is to identify such activities and begin charging fees, if permitted by law, and to periodically adjust existing fees to reflect current costs or market value so as to minimize general taxpayer subsidy of specialized services or things of value (such as rights or privileges) provided directly to identifiable non-Federal beneficiaries.

As part of the 1998 Management Control Program, Interior conducted a biennial review of its fee programs and concluded that user charge revenues had substantially increased. The next biennial review is scheduled for 2000.

Other Key Legal and Regulatory Requirements

The Department is required to comply with other legal and regulatory requirements which include the Prompt Payment Act, the Debt Collection Improvement Act, and the Independent Offices Appropriation Act (User Fees).

On November 10, 1998, the Administration enacted the Federal Reports Elimination Act of 1998 (P.L. 105-362). This Act eliminated (1) the requirement to report Civil Monetary Penalties to the Department of the Treasury and (2) the requirement to submit Prompt Payment Act compliance reports to the Office of Management and Budget.

Interior continues to monitor its performance under the Prompt Payment Act and the Debt Collection Improvement Act. Performance results are provided in the Departmental Management section of this report.